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INTER-CITY GAS LIMITED

SEMI-ANNUAL REPORT
FOR THE SIX MONTHS ENDED JUNE 30, 1978

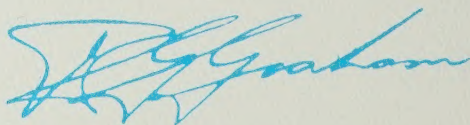
TO THE SHAREHOLDERS

For the six months ended June 30, 1978, Inter-City's earnings totalled \$3,221,000 or 71c per common share compared with 52c earned during the same period last year.

Although temperatures throughout the utility service areas were close to historic averages, weather was colder than last year, and increased sales volumes improved utility earnings. Higher well head prices of natural gas also contributed to increased earnings.

As at June 30, 1978, Inter-City owned 49.7% of the outstanding shares of Canadian Hydrocarbons Limited. On July 28, 1978 Inter-City mailed each shareholder of Canadian Hydrocarbons Limited a Take-over Bid Circular and Prospectus offering 1½ common shares of Inter-City for each common share of Canadian Hydrocarbons.

For the six months ended June 30, 1978, Canadian Hydrocarbons Limited reported net earnings of 76c compared with 54c for the six months ended June 30, 1977. Canadian Hydrocarbons owns approximately 47% of the outstanding common shares of Canadian Homestead Oils Limited.

A handwritten signature in blue ink, appearing to read 'R. G. Graham', with a stylized, cursive script.

R. G. GRAHAM
President

August 15, 1978

INTER-CITY GAS LIMITED

Consolidated Balance Sheet June 30, 1978
(Thousands of Dollars) (Unaudited)

ASSETS		
	1978	1977
	\$	\$
CURRENT ASSETS		
Cash and Other Current Assets	2,135	2,213
Accounts and Notes Receivable	12,480	11,546
Inventories		
— Raw Materials	2,675	2,393
— Work in Process	564	636
— Finished Goods	6,149	6,094
	<u>24,003</u>	<u>22,882</u>
INVESTMENTS		
Equity in Canadian Hydrocarbons Limited	36,494	39,798
Other	896	822
	<u>37,390</u>	<u>40,620</u>
FIXED ASSETS		
Less — Accumulated Depreciation and Depletion	67,877	62,202
	13,113	10,120
	<u>54,764</u>	<u>52,082</u>
OTHER ASSETS AND DEFERRED CHARGES		
	3,749	2,369
	<u>119,906</u>	<u>117,953</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank Loans	15,469	18,317
Accounts Payable	7,400	9,400
Current Portion Long-Term Debt	8,785	3,597
Other Current Liabilities	297	413
	<u>31,951</u>	<u>31,727</u>
LONG TERM DEBT LESS CURRENT PORTION		
	43,443	52,160
DEFERRED INCOME TAXES AND OTHER LIABILITIES		
	5,973	4,764
	<u>81,367</u>	<u>88,651</u>
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized —		
600,000 cumulative redeemable first preference shares of the par value of \$20 each, issuable in series		
262,468 cumulative redeemable second preference shares of the par value of \$20 each, issuable in series		
10,000,000 cumulative redeemable third preference shares of the par value of \$54 each, issuable in series		
20,000,000 common shares		
Outstanding —		
246,450 Series B first preference shares (June 30, 1977 - 246,450 shares)	4,929	4,929
200,000 Series C first preference shares (June 30, 1977 - 200,000 shares)	4,000	4,000
93,668 Series A second preference shares (June 30, 1977 - 97,268 shares)	1,873	1,945
86,285 Series B second preference shares (June 30, 1977 - 89,000 shares)	1,726	1,780
100,000 Series A third preference shares (June 30, 1977 - no shares)	6,500	—
4,299,145 common shares (June 30, 1977 - 4,296,495 shares)	6,948	6,944
	<u>25,976</u>	<u>19,598</u>
Retained Earnings		
	12,563	9,704
	<u>38,539</u>	<u>29,302</u>
	<u>119,906</u>	<u>117,953</u>

INTER-CITY GAS LIMITED

Consolidated Statement of Income
Six Months Ended June 30, 1978
(Thousands of Dollars)
(Unaudited)

	1978 \$	1977 \$
OPERATING REVENUE		
Sale of Natural Gas		
Utility Operations	32,447	28,030
Production Operations	4,637	4,026
Sale of Manufactured Goods	8,948	7,651
Other Revenue	391	473
	<u>46,423</u>	<u>40,180</u>
OPERATING EXPENSES		
Natural Gas Purchased	26,779	22,651
Cost of Manufactured Goods		
Sold	6,848	5,921
Operating and Maintenance	5,560	4,868
Depreciation and Depletion	1,570	1,281
	<u>40,757</u>	<u>34,721</u>
OPERATING PROFIT	<u>5,666</u>	<u>5,459</u>
EQUITY IN NET INCOME OF CANADIAN HYDROCARBONS LIMITED	<u>1,951</u>	<u>1,374</u>
	<u>7,617</u>	<u>6,833</u>
FINANCIAL EXPENSES		
Interest on Long-Term Debt	2,326	2,484
Other Interest	902	736
Amortization of Financing		
Expenses and Goodwill	100	70
Loss on Foreign Exchange	411	4
	<u>3,739</u>	<u>3,294</u>
INCOME BEFORE INCOME TAXES	<u>3,878</u>	<u>3,539</u>
INCOME TAXES	<u>657</u>	<u>731</u>
NET INCOME FOR THE PERIOD	<u>3,221</u>	<u>2,808</u>
NET INCOME PER COMMON SHARE	<u>.71</u>	<u>.52</u>
AVERAGE COMMON SHARES OUTSTANDING	<u>3,782,257*</u>	<u>4,295,812</u>

INTER-CITY GAS LIMITED

Consolidated Statement of Changes in Financial Position
For the Six Months Ended June 30, 1978
(Thousands of Dollars)
(Unaudited)

	1978 \$	1977 \$
SOURCE OF FUNDS		
Provided from Operations	3,773	3,351
Sale of third Preference Shares	6,500	—
Sale of Preference Shares of Canadian Hydrocarbons	4,816	—
Other	33	68
Term Bank Loans	—	2,455
	<u>15,122</u>	<u>5,874</u>
USE OF FUNDS		
Additions to Fixed Assets	1,355	1,893
Reduction of Long-Term Debt	3,333	1,692
Other Investments	93	—
Dividends	1,141	711
Other	343	642
	<u>6,265</u>	<u>4,938</u>
INCREASE IN WORKING CAPITAL	<u>8,857</u>	<u>936</u>



INTER-CITY GAS LIMITED

INTER-CITY GAS BUILDING
444 St. Mary Avenue
Winnipeg, Manitoba R3C 3T7

*The average number of shares outstanding for the six months ended June 30, 1978 has been reduced for the number of shares held by Canadian Hydrocarbons Limited in Inter-City Gas Limited.